

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 NEA-10

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R 291450Z MAY 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5320

INFO AMEMBASSY CARACAS

AMEMBASSY QUITO

C O N F I D E N T I A L LIMA 4375

EO 11652: GDS

TAGS: ENRG, EGEN, PFOR, PE,EC, VE

SUBJECT: ENERGY - PERU DROPS TWO DAY DRIVING BAN IN
EXPECTATION OF CHANGE IN GASOLINE SUBSIDY POLICY

REF: LIMA 4044, 2377, LIMA 400 OF 1/16/74 (NOTAL)

1. BY DECREE LAW NO. 21159, OF MAY 27, 1975, GOP DROPPED ITS TWO DAY DRIVING BAN WHICH IT HAS IMPOSED IN JANUARY, 1974 TO SAVE GASOLINE CONSUMPTION. D.L. STATES THAT THE TWO-DAY BAN DID NOT PRODUCE THE DESIRED RESULTS, OBLIGING THE GOP TO CONTINUE TO SUBSIDIZE PETROLEUM PRODUCTS AND THEN NOTES THAT SINCE STUDIES TO READJUST THE PRICE OF GASOLINE ARE NOW BEING CONCLUDED, THE BAN IS BEING DROPPED.

2. ON MAY 23, THE VENEZUELAN AMBASSADOR TO PERU, GENERAL LUIS ARTURO ORDONEZ, TOLD LIMA PRESS THAT NEGOTIATIONS FOR THE PURCHASES OF 20,000 B/D OF VENEZUELAN CRUDE BY PERU ARE NOW IN THEIR FINAL STAGES AND THAT REPRESENTATIVES OF BOTH GOVERNMENTS ARE NOW WORKING ON THE FINAL DETAILS OF
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THE CONTRACTS WHICH WOULD BE SIGNED SHORTLY. ACCORD-

ING TO A PRESS ARTICLE, 50 PERCENT OF PERU'S 40,000 B/D OIL DEFICIT WILL BE COVERED BY VENEZUELAN CRUDE AND A SIMILAR QUANTITY WITH ECUADOREAN CRUDE. (NOTE: WE PRESUME THE ARTICLE MISINTERPRETED THE ECUADOREAN PORTION WHICH WILL BE 10,000 B/D FINANCED BY VENEZUELA, NOT 20,000 B/D)

3. COMMENT: IT APPEARS LIKELY THAT THE GOP DECIDED TO AWAIT THE FINAL DETAILS OF THE VENEZUELAN OIL LOAN AGREEMENT BEFORE DECIDING TO DROP THE TWO-DAY DRIVING BAN, PRESUMABLY IN ORDER TO BE IN A POSITION TO KNOW WITH PRECISION WHAT THE ECONOMIC COST TO PERU WILL BE. ALTHOUGH THE VICE MINISTER OF ECONOMY AND FINANCE TOLD US IN MARCH (LIMA 2377) THAT THE GOP WOULD INSITUTE A TWO-TIER GASOLINE PRICE SYSTEM (WHICH PROBABLY CONSTITUTED HIS MINISTRY'S ADVICE TO THE CABINET), RECENTLY THE VICE MINISTER OF ENERGY AND MINES, ANTONIO TORD, INFORMED EMBASSY OFFICERS THAT THE CABINET NOW HAS BEFORE IT SIX DIFFERENT ALTERNATIVES, INCLUDING INCREASING THE TAX ON VEHICULAR REGISTRATION AND OR VARIOUS COMBINATIONS OF A SINGLE OR DOUBLE-TIER PRICE SYSTEM. TORD SAID NO DECISION HAS YET BEEN MADE, AND WE THINK IT LIKELY THAT THE CABINET HAS NOT YET DECIDED PRECISELY HOW TO HANDLE THE ISSUE. OTHERWISE, IT PROBABLY WOULD HAVE ANNOUNCED THE NEW SYSTEM CONCURRENTLY WITH THE DROPPING OF THE TWO-DAY DRIVING BAN.

4. THE GOP WOULD PROBABLY PREFER SOME FORM OF TWO -TIER SYSTEM TO INSULATE THE PUBLIC SECTOR FROM PRICE INCREASES IF POSSIBLE, BUT THIS, AS REPORTED EARLIER, MIGHT LEAD TO THE CREATION OF A BLACK MARKET. IN ANY CASE, THE GOP IS NOW ABOUT TO MODIFY ITS GASOLINE SUBSIDY POLICY IN FACE OF A GROWING GOVERNMENT SUBSIDY AND CONSEQUENT DEFICIT AND PROBABLY WITH THE KNOWLEDGE THAT A JUNGLE OIL BOOM IS UNLIKELY. SUCH A MODIFICATION WOULD MEAN THE ABANDONMENT OF ONE OF PRESIDENT VELASCO'S MOST SACRED SHIBBOLETHS, TO WHICH HE HAS CLUNG TENACIOUSLY FOR SIX YEARS AGAINST THE ADVICE OF THE MINISTRY OF ECONOMY AND FINANCE. IF ADOPTED, THIS CHANGE WOULD ALSO BE A FURTHER INDICATION OF THE STRENGTHENING POSITION OF THE PRIME

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MINISTER, WHO WE BELIEVE HAD LONG FAVORED SUCH A POLICY.
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